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Employee Motivation and Employee Performance in Child Care

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3 Explaining employee governance, motivation and performance

3.1 *Introduction*

This chapter presents the theoretical model that explains the effects of the introduction of market forces in the Dutch child-care sector on employee governance, motivation and performance. Section 3.2 presents the research questions of this research. Section 3.3 explains how the introduction of market forces in the Dutch child-care sector influences the employee governance of child-care organisations. Section 3.4 focuses on the effects of the introduction of market forces in the Dutch child-care sector on employee motivation. In section 3.5 hypotheses are derived with regard to the effects of employee motivation on employee performance. Finally, section 3.6 gives a summary of this chapter.

3.2 *Research questions*

The aim of this research is to describe and explain the effects of the introduction of market forces in the Dutch child-care sector on employee governance, motivation and performance. These effects are studied using a structure-conduct-performance approach. This type of approach, originating from the study of industrial organisations, assumes that an industry's *performance* depends on the *conduct* or behaviour of the firms, which, in turn, depends on the *structure* of the market (Carlton and Perloff 1994). In this research, employee motivation and performance are assumed to be dependent upon the employee governance of child-care organisations, which, in turn, is assumed to be dependent upon the strength of the market forces the child-care organisation is confronted with (see Figure 3-1).

The following research questions are formulated:

1. To what extent does the introduction of market forces in the Dutch child-care sector influence the employee governance of child-care organisations?
2. If the employee governance of child-care organisations changes, to what extent do these changes influence employee motivation?
3. If employee motivation changes, to what extent do these changes influence employee performance?

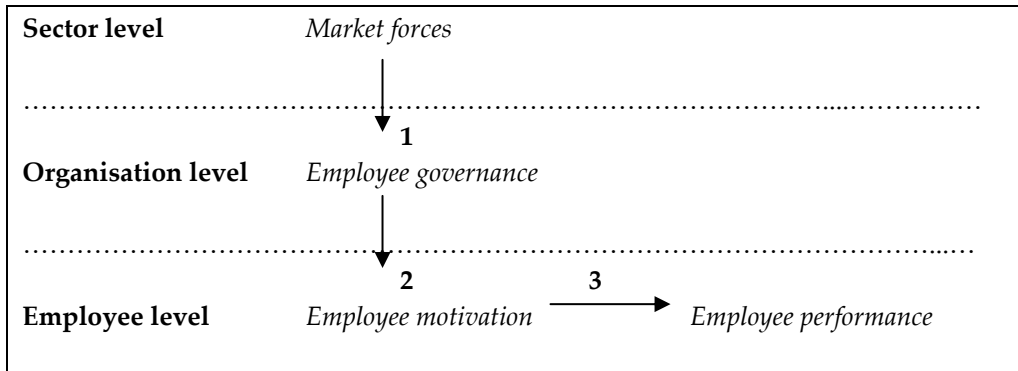


Figure 3-1: Graphical representation of research questions

3.3 *How market forces affect employee governance*

According to the structure-conduct-performance approach, the *conduct* or behaviour of organisations depends on the *structure* of the market (Carlton and Perloff 1994). Thus, organisations are assumed to adapt their behaviour in response to changes in the market structure. With our first research question, we investigate the extent to which changes in the market structure of the Dutch child-care sector, i.e. the introduction of market forces, affect the employee governance of Dutch child-care organisations.

As described in Chapter 2, the Dutch child-care sector is confronted with a transition from a welfare sector to a market sector. The changes in the market

structure of the Dutch child-care sector are expected to affect child-care organisations. Instead of being a non-profit company that can rely on government subsidies, the introduction of market forces necessitates child-care organisations to become independent businesses that are able to make a profit from the services they are providing.

In order to adjust to the demands of the market and to improve their financial position, child-care organisations have different strategies at their disposal. Child-care organisations can adjust to the demands of the market by offering services that other organisations do not offer such as longer or flexible opening hours or other services besides child care (Dekker, Plantenga and Siegers 2001). In doing this, child-care organisations expect to improve their market share and financial position. Other strategies that child-care organisations have at their disposal to improve their financial position are, for example, raising the prices of child care or decreasing costs by increasing efficiency (Turksema 2000). Since personnel costs are the most important cost factor in the labour-intensive child-care sector (PriceWaterhouseCoopers 2005) an increase in focus on the cost price forces child-care organisations to use personnel more efficiently.

This book focuses on the extent to which child-care organisations react to the introduction of market forces in the Dutch child-care sector by increasing personnel efficiency. In order to increase efficiency, child-care organisations need to redefine the way in which they govern their employees. The term 'governance structure' was introduced by Williamson (1985) and represents the way the employer has structured the organisation in order for the employees to be able to carry out their work. We assume that employee governance can be described by four elements: employment contracts, job design, reward system and career system.² With regard to the reward and career system, we make a distinction between the focus on pay-for-performance and the attractiveness of the reward and career system. Thus, child-care organisations are expected to change their employment contracts, job design, reward and career system in order to increase personnel efficiency.

² The subdivision of employee governance into these four elements is taken from Glebbeek and Van der Lippe (2000).

An important efficiency measure in the child-care sector is the extent to which the number of childminders is adjusted to the number of children present in the day-care centre. Since the number of children that are present in the day-care centre is not stable throughout the week, the number of childminders that is necessary to look after these children needs to be flexible in order to realise high personnel efficiency. By working with flexible employment contracts childminders can, for example, be scheduled in on busy days. Also by raising the tightness of the job design, efficiency can be increased. Whenever there are less children present than expected, and therefore more childminders are present on the group than required by law, requiring childminders to take the day off or to work on different groups or at different locations will, for example, result in a more efficient use of the available employees.

By changing the employment contracts and job design, child-care organisations are therefore able to increase personnel efficiency. An increase in efficiency, however, requires flexibility and effort from the childminders. In order to motivate childminders to work hard, child-care organisations can be expected to use performance-related pay (Delfgaauw 2005). In addition, child-care organisations can be expected to increase the attractiveness of their reward and career system to attract and motivate personnel, for example, by offering higher wages than necessary according to the collective labour agreement or by offering childminders the possibility to develop themselves in their work.

All in all, the introduction of market forces in the Dutch child-care sector, and the accompanying pressure to increase efficiency is expected to affect the employee governance of child-care organisations. The introduction of market forces in the Dutch child-care sector is expected to have a positive effect on the: flexibility of employment contracts, tightness of the job design, focus on pay-for-performance in the reward and career system, and attractiveness of the reward and career system (see Table 3-1).

Table 3-1: Expected effects of market forces on employee governance¹

| | Flexibility employment contracts (low..high) | Tight Job design (low..high) | Pay for performance reward system (low..high) | Pay for performance career system (low..high) | Attractive reward system (low..high) | Attractive career system (low..high) |
|---------------------------------|---|---|--|--|---|---|
| Market forces (low..high) | + | + | + | + | + | + |

¹+: positive effect, -: negative effect.

3.4 How employee governance affects employee motivation

In the preceding section, we explained how Dutch child-care organisations are expected to adapt to the changes in the market structure of the sector. In order to increase personnel efficiency, child-care organisations are expected to alter the way in which they govern their employees. The changes in employee governance are, in turn, expected to affect the performance of the childminders. Given the importance of employee motivation for the understanding of employee performance, which is explained in section 1.3.1, we will first focus on employee motivation before paying attention to employee performance in section 3.5. Section 3.4.1 presents a review of the literature on employee motivation. In section 3.4.2, the theoretical model that is used in this research to explain employee motivation is developed. Finally, section 3.4.3 discusses how, on the basis of our theoretical model, changes in the employee governance of child-care organisations can be expected to affect employee motivation.

3.4.1 Review of the literature on employee motivation

The concept of employee motivation has been the subject of study in many different disciplines. In this research, elements from economics, psychology and sociology are combined and incorporated into the analysis in order to obtain a better understanding of the effects of external interventions on employee motivation.

Mainstream economic theory assumes that people are rational maximisers. They are assumed to make decisions that maximise a given end, usually referred to

as the maximisation of utility. Given the assumption that people try to maximise utility and that preferences neither change nor differ significantly from person to person, differences or changes in behaviour can be explained by differences in constraints, usually measured as differences in relative prices (Stigler and Becker 1977).³ All the decisions that people make, be it whether to buy a hamburger, whether to vote, or whether to perform well on a job, are supposed to be analysable within this mainstream economic framework of rational choice (Becker 1976).

Mainstream economic theory also assumes that employees choose their level of performance by considering the rewards as well as the costs of performing, with the costs being mainly the opportunity costs of foregone leisure. This theory rests on the proposition that work is a source of disutility and that only an extrinsic reward to compensate for this disutility will induce individuals to work (Elliott 1991).

While economic theory attributes changes in behaviour to changes in relative prices, psychology generally focuses on people's preferences (Frey and Benz 2002). Psychologists have argued for a long time that people are not only motivated to do things because of benefits from the outside. According to these psychologists, people can also be motivated to do things even though there is no external reward but the behaviour itself. In this case people are said to be intrinsically motivated (Deci 1975).

According to the cognitive evaluation theory of Deci (1975), intrinsically motivated behaviour is based on people's need to feel competent and self-determined. People are said to be intrinsically motivated to conduct a certain activity when they are 'freely engaging in activities that they find interesting, that provide novelty and optimal challenge' (Deci and Ryan 2000, p. 235). Intrinsic motivation is therefore usually connected to rewards that are intrinsic to the person, while extrinsic motivation is connected to rewards that are extrinsic to the person, such as money, gifts, ribbons or praise (Sansone and Harackiewicz 2000).

³ The assumption that differences in behaviour can be explained by focusing on differences in constraints is used as a heuristic to simplify reality. This is not to say that other factors might not be of importance also (Nicholson 1995).

Over the years, two strands of literature have evolved with regard to intrinsic motivation. First, there is the task characteristics literature that claims that intrinsic motivation at work 'may actually have more to do with how tasks are designed and managed than with the personal dispositions of the people' (Hackman and Oldham 1980, p. 76-77). Over the years, much evidence has been found that jobs that offer skill variety, task identity, task significance, autonomy and direct feedback do indeed enhance the intrinsic motivation of employees.⁴ A second branch of literature focuses on the interrelatedness between extrinsic and intrinsic motivation. The assumption that certain activities provide their own inherent reward raises the question of how extrinsic rewards will affect people's intrinsic motivation for these activities (Deci, Koestner and Ryan 1999).

The cognitive evaluation theory is an example of the second branch of the literature. Cognitive evaluation theory assumes that the effect that extrinsic rewards have on intrinsic motivation is dependent on how the recipients interpret the rewards: people may perceive an external reward as controlling or as informational. If the recipient perceives the reward as informational, more self-determination and competence will be derived from conducting the activity and intrinsic motivation will increase. If, on the other hand, the recipient perceives the reward as controlling, less self-determination and competence will be derived from conducting the activity and the intrinsic motivation will decrease (Ryan and Deci 2000).

The social-psychological model of the interaction between extrinsic and intrinsic motivation was introduced in economics by Frey (1992) as the crowding theory. Frey assumes, in line with Deci (1975), that intrinsic motivation increases if individuals perceive an external intervention as supportive. In this case, a crowding-in effect is said to occur. However, if individuals perceive an external intervention as controlling, intrinsic motivation decreases and a crowding-out effect is said to occur (Frey 1997a).

The important message that has been brought forward by psychologists like Deci (1975) and introduced in the economic discipline by Frey (1992) is that extrinsic motivation and intrinsic motivation do *not* function independently of one

⁴ See for example Jansen *et al.* (1996), Laamanen *et al.* (1999) and Houkes (2002).

another. Therefore, an employer can not simply maximise employee motivation by motivating 'a member of staff intrinsically by making his or her job as interesting as possible and extrinsically by promising a bonus' (Frey and Osterloh 2002, p. 9).

An example of a crowding-out effect, where the introduction of a financial incentive resulted in behaviour that was the opposite of what was intended, is the following. Parents are often late when picking up their children from child-care facilities. By introducing a fine, the management of a child-care centre wanted to give the parents an incentive to pick up their children on time, hoping that the number of parents arriving late would decrease. The introduction of the fine, however, had the opposite effect: more parents were late when picking up their children (Gneezy and Rustichini 2000). Instead of feeling guilty when they arrived late, parents now paid a fine which, in comparison with the guilt they felt before, was considered a smaller price to pay. Moreover, when the new system was cancelled, the number of parents failing to collect their children on time did not return to the former level: once the intrinsic motivation was crowded-out, the withdrawal of the fine proved to be insufficient to restore the original level of intrinsic motivation.

3.4.2 *Explaining employee motivation*

With this research we will try to contribute to a better understanding of what the theoretical construct of intrinsic motivation in the context of paid work comes down to. In order to be able to distinguish between levels of extrinsic and intrinsic motivation we will focus on the different types of rewards that employees receive from performing an activity. By doing this, the risk of having to distinguish between activities that are conducted out of an extrinsic motivation and those that are intrinsically motivated is avoided (Vinke 1996; Thierry 1990). Psychologists usually define activities as being extrinsically motivated when an individual attributes the driving force behind the activity to an external cause - usually a financial reward - and intrinsically motivated when an individual attributes the motivation to carry out the activity to oneself (Lepper and Greene 1978; Sansone and Harackiewicz 2000). However, it turns out that in reality this distinction is not that cut and dry. It is almost impossible to distinguish between rewards that are internal or external to the person (Frey 1997a). Furthermore, one cannot say that a

person is either completely intrinsically motivated or entirely extrinsically motivated. Often behaviour is pursued for the internal as well as the external rewards that may be received and therefore both types of motivation influence behaviour.

Due to the difficulties that arise when trying to distinguish between rewards that are external and internal to the person, in this research we will focus on rewards that are internal and external to the activity (Ryan and Deci 2000). Ever since the first discussions on intrinsic motivation, financial rewards have been at the heart of the external rewards, while the enjoyment or fun one derives from an activity has been considered one of the most important internal rewards (Deci 1975). Over time, the status and behavioural confirmation that one may receive from others for conducting a certain task are, however, regarded as external rewards also while the internal rewards that people might derive from performing a task are broadened in such a way that these also incorporate a work morale (Frey 1993;1997a).

The social production function approach introduced by Lindenberg (1991;1996;2001) offers a framework that enables one to explain how work rewards affect employee motivation. The social production function approach assumes that people have one universal goal in life: subjective well-being. Subjective well-being consists of two components: physical well-being and social well-being. In addition, the social production function approach specifies two lower level goals that produce physical well-being and three lower level goals that produce social well-being. Physical well-being can be produced by comfort and stimulation, and social well-being can result from affection, status and behavioural confirmation from yourself and others.

Having a job is one of the factors that can lead to the production of well-being: a job provides employees with extrinsic and intrinsic rewards, or so-called production factors, for the production of well-being. The higher the level of well-being employees are able to produce with the extrinsic and intrinsic rewards they derive from their job, the higher their level of extrinsic and intrinsic motivation is assumed to be.

On one hand, the extrinsic rewards offer the employees the possibility of *directly* producing status and behavioural confirmation from others and *indirectly*

producing comfort, stimulation, affection, status and behavioural confirmation from oneself and from others. Feedback from the employer, for example, offers the employee the possibility of directly producing behavioural confirmation from others. The financial rewards employees receive from work may also be a factor in the direct production of well-being, since a financial reward may directly produce status: a well-paid job may, for example, provide a higher status than a low-paid job. In addition, financial rewards also offer employees the possibility to indirectly produce comfort, stimulation, affection, behavioural confirmation from yourself and others, and status. Money is required to be able to buy a house for comfort or to go to the movies for stimulation, for instance. The financial rewards employees receive from their job therefore also provide them with the resources that are needed to produce these goals outside of their work.

The intrinsic rewards, on the other hand, offer employees the possibility of directly producing comfort, stimulation, affection and behavioural confirmation from oneself. With the appreciation the childminders receive from the children, the attention that can be given to the children and the possibilities for development that are offered by the job, the childminders will be able to produce affection, comfort, stimulation and behavioural confirmation from themselves. Spending time with the children and feeling that they appreciate that produces affection; comfort is produced if there is enough time to pay attention to the children and not too much stress; stimulation results from seeing the children develop over time, your assistance in this process, and the possibility of becoming better at your job by the opportunities for development it offers; and behavioural confirmation from yourself springs from the experience that the children enjoy themselves, are in good hands with you and are being looked after in a professional way.

Together the extrinsic and intrinsic rewards offer the employees the means for the production of well-being. The extent to which employees are able to produce well-being with the extrinsic and intrinsic rewards they receive from their job is, however, neither the same for all employees nor stable over time, but depends on how effective the rewards are in producing subjective well-being. Since different people face different constraints in life, the extent to which rewards are effective in producing of comfort, stimulation, affection, status and behavioural confirmation (both from themselves and from others) may differ from person to

person. Consequently, different people may have different production functions that lead to their maximum well-being. In other words, although everyone is assumed to have only one universal goal in life, there might be different routes for different people that lead to fulfilling that universal goal of subjective well-being (Lindenberg 1991). If a paid job gave, for example, more social status to men than to women, it would be more efficient for men to take the route of having a paid job to reach the universal goal of subjective well-being than it would be for women. In this respect it is important that the social production function approach assumes that the extent to which people can actually produce well-being with the rewards they derive from conducting a certain activity, as reflected by the productivity of the factors of production, is influenced by the values that are assigned to these rewards by the society in which the person lives. The extent to which employees are able to produce comfort, stimulation, affection, behavioural confirmation and status therefore does not depend on subjective judgements alone but is affected by society as well.

The extent to which the extrinsic and intrinsic rewards are able to produce subjective well-being in people's jobs, therefore, depends not only on the extrinsic and intrinsic rewards they receive from their job but also on the productivity of these rewards. Given that the productivity of extrinsic and intrinsic rewards may differ amongst employees, extrinsic and intrinsic rewards may have different effects on the production of well-being and, as a consequence, on employee motivation. Both the extrinsic and intrinsic rewards employees derive from their job are assumed to have a positive influence on employee motivation. In addition, it is assumed that the higher the productivity of a certain reward, the stronger the effect on employee motivation will be.

Because employee motivation is assumed to be influenced by the rewards as well as by the productivity of these rewards, changes in rewards or their productivity will affect employee motivation. External interventions are assumed to affect extrinsic and intrinsic motivation by influencing the extrinsic and intrinsic rewards employees derive from their job. In addition, the intrinsic motivation of the employees is assumed to be influenced by the way in which an external intervention is perceived. On one hand, if an external intervention is perceived as controlling, the productivity of the intrinsic rewards that are derived from

conducting the activity decrease and intrinsic motivation will be crowded-out. On the other hand, if an external intervention is perceived as being supportive, the productivity of the intrinsic rewards that are derived from performing the activity will increase and intrinsic motivation will be crowded-in.

A famous example in which an increase in extrinsic rewards was found to decrease intrinsic motivation is the example of paying people for donating blood, put forward by Titmuss (1970). He argued that the introduction of a financial compensation for donating blood in a situation where donors previously did not receive a payment, would lead to a decrease in blood donations rather than an increase. In terms of the social production function approach, a decrease in blood donations can be explained as follows. A small increase in extrinsic rewards can be expected to have very little effect on extrinsic motivation, while it may decrease the productivity of the intrinsic rewards that are derived from giving blood and thus lead to a lower production of intrinsic motivation. Over the years, many more examples have been found in which the introduction of a financial payment was found to decrease rather than increase intrinsic motivation.⁵

A financial reward may, however, also be perceived positively; in this case a crowding-in effect is said to occur. For activities that involve large sacrifices, some form of financial payment might be valued 'both as a form of recognition and as a partial compensation for the costs involved' (Le Grand 2003, p. 46). However, the financial payment should never be so large that it fully compensates for the sacrifice, because in that case there will again be no room to derive behavioural confirmation from oneself in conducting the activity.

The fact that external interventions may influence the productivity of the intrinsic rewards forces employers to consider the possible effects that an external intervention may have on intrinsic motivation before intervening. Moreover, the fact that a decrease in the productivity of intrinsic rewards may have lasting effects on employee motivation is all the more reason for employers to take the possible effects on intrinsic motivation into account when considering an external intervention. While the effects on employee motivation of a decrease in extrinsic or intrinsic rewards can be made undone immediately by withdrawing the changes

⁵ See for example Jordan (1986); Wiersma (1992); Deci, Koestner and Ryan (1999); Frey and Jegen (2001).

that have been made, a change in employee motivation through a decrease in the productivity of intrinsic rewards can't be reversed immediately. It is known, for example, that 'the process of building up of work morale is certainly slower than destroying it' (Frey 1997b, p. 430).

Finally, a decrease in the productivity of intrinsic rewards in one situation may spill over to other situations (Frey 1997a). In the case of donating blood, the decrease in the productivity of the intrinsic rewards that leads to a lower production of intrinsic motivation, may spill over to other areas in which a sacrifice is made for the common good. The financial compensation that is received for giving blood, in this case, devalues a sacrifice in general. Therefore, in all possible situations in which a sacrifice is made for the common good the behavioural confirmation that is received from that sacrifice will decrease or even vanish. Given that a decrease in the productivity of intrinsic rewards especially may have a large and long lasting effect on the intrinsic motivation of employees, external interventions therefore need to be employed with care.

3.4.3 Employee motivation in child care

In section 3.3 the expected effects of the introduction of market forces in the Dutch child-care sector on the employee governance of child-care organisations were discussed. In the preceding section, we have explained how external interventions can affect employee motivation. On the basis of the theoretical model that was developed in the preceding section, in this section hypotheses are formulated with regard to the expected effects of the introduction of market forces in the Dutch child-care sector on the extrinsic and intrinsic motivation of the childminders (see Figure 3-2).

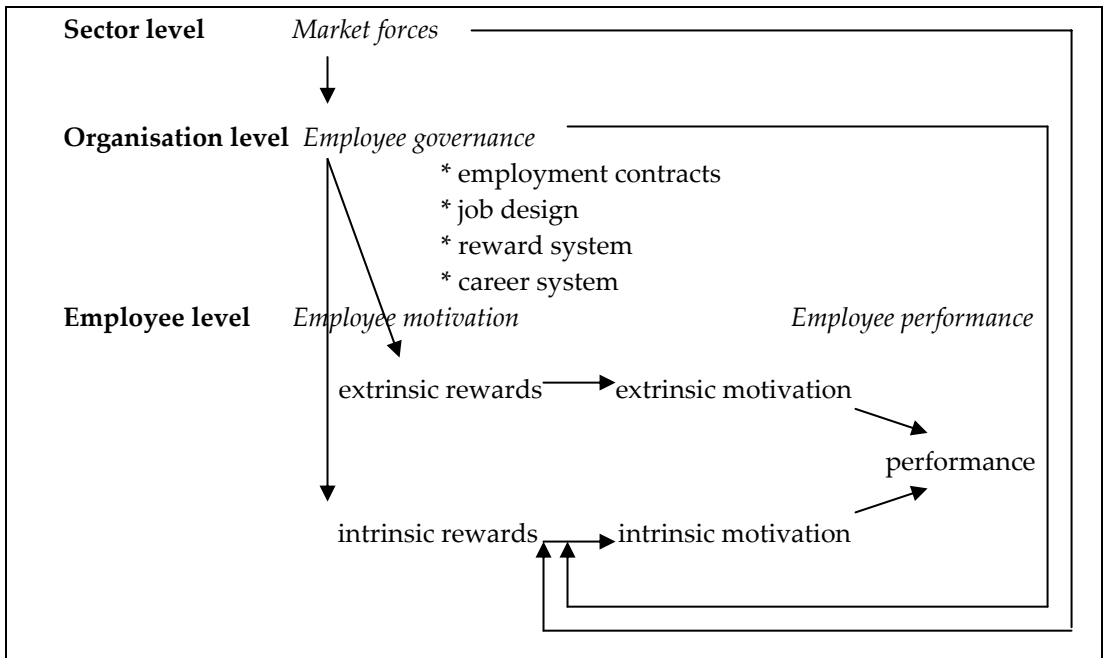


Figure 3-2: The effects of the introduction of market forces in the Dutch child-care sector on the employee motivation of childminders.

Expected effects on extrinsic and intrinsic rewards

As has been explained in section 3.3, the introduction of market forces in the Dutch child-care sector forces child-care organisations to increase efficiency. In order to realise high personnel efficiency, child-care organisations are expected to redefine the way in which they govern their employees. By increasing the flexibility of employment contracts and the tightness of the job design, child-care organisations will be better able to link the number of childminders working each day to the number of children present in the day-care centre. As a result, the children in the day-care centre can be looked after by a smaller group of childminders. Thus, an increase in personnel efficiency increases cost efficiency, which improves the financial position of the child-care organisation.

The expected effects of an increase in the flexibility of employment contracts and tightness of the job design on the extrinsic and intrinsic rewards childminders derive from their jobs are, however, less positive. An increase in the flexibility of employment contracts is expected to negatively affect the extrinsic

rewards childminders derive from their job since it lowers job security, which has a negative effect on the production of status and the possibilities of producing well-being outside work. An increase in the flexibility of employment contracts is also expected to negatively affect the intrinsic rewards childminders derive from their job, since it requires an increase in flexibility and effort from the childminders, which is accompanied by an increase in work pressure and less time for giving special attention to the children, and decreases the possibilities of producing comfort, stimulation, affection and behavioural confirmation from oneself. For similar reasons, an increase in the tightness of the job design is expected to decrease the intrinsic rewards childminders derive from their job. It is not expected to influence the extrinsic rewards of the job, since there is no direct relation between job design and extrinsic rewards.

An increase in focus on pay-for-performance in the reward or career system is expected to positively affect the extrinsic rewards and negatively affect the intrinsic rewards childminders derive from their job. An increased focus on pay-for-performance may increase the financial rewards childminders derive from their job, which increases the production of status and raises the possibilities of producing well-being outside work. Intrinsic rewards are expected to decrease, however, since an increase in focus on pay-for-performance requires more effort from the childminders and an increase in effort can be accompanied by an increase in work pressure and less time for paying special attention to the children, which decreases the possibilities of producing comfort, stimulation, affection and behavioural confirmation from oneself.

Finally, the attractiveness of the reward system is expected to affect the extrinsic rewards positively, whereas the attractiveness of the career system is expected to do the same for both the extrinsic and intrinsic rewards of the job. An increase in attractiveness of the reward and career system is expected to increase financial rewards, which raises the production of status and the possibilities of producing well-being outside work. Intrinsic rewards are only expected to be influenced by the attractiveness of the career system, since an increase in possibilities for personal development means more possibilities for producing stimulation and behavioural confirmation from yourself.

The expected effects of employee governance on the extrinsic and intrinsic rewards are presented in columns 1 and 2 of Table 3-2. The data in Table 3-2 show that employee governance is expected to have both positive and negative effects on the extrinsic and intrinsic rewards childminders derive from their job. Therefore, the overall effect of the introduction of market forces on the extrinsic and intrinsic rewards that childminders derive from their jobs is uncertain.

Table 3-2: Expected effects of market forces and employee governance on employee motivation¹

| | Extrinsic rewards (low .. high) (1) | Intrinsic rewards (low .. high) (2) | Productivity intrinsic rewards (low .. high) (3) | Extrinsic motivation (low .. high) (4) | Intrinsic motivation (low .. high) (5) |
|---|--|--|---|---|---|
| Market forces (low .. high) | +/- | +/- | - | +/- | +/- |
| Flexibility contracts (low .. high) | - | - | - | - | - |
| Tight job design (low .. high) | 0 | - | - | 0 | - |
| Pay for performance reward system (low .. high) | + | - | - | + | - |
| Pay for performance career system (low .. high) | + | - | - | + | - |
| Attractive reward system (low .. high) | + | 0 | - | + | - |
| Attractive career system (low .. high) | + | + | + | + | + |

¹+: positive effect, -: negative effect, 0: no effect.

Expected effects on the productivity of intrinsic rewards

As stated in section 3.4.2, in order to be able to understand how the changes in employee governance affect employee motivation it is not enough to focus only on changes in rewards, because external interventions are not only assumed to directly influence extrinsic and intrinsic motivation by affecting the extrinsic and intrinsic rewards employees derive from their job, but also to indirectly influence

the intrinsic motivation of the employees by the way in which an external intervention is perceived. In addition to the effects of employee governance on the extrinsic and intrinsic rewards childminders derive from their job, employee governance is therefore expected to indirectly influence the intrinsic motivation of the childminders by affecting the productivity of the intrinsic rewards (see column 3 of Table 3-2).

First of all, the productivity of the intrinsic rewards is expected to be affected by how the introduction of market forces in the Dutch child-care sector is perceived. The transition of the Dutch child-care sector from a welfare sector to a market sector is expected to be perceived as being negative by the childminders, since financial considerations are the driving force behind the transition and the position of the childminder has not been the focal point of the transition. The introduction of market forces is therefore expected to negatively affect the productivity of the intrinsic rewards that childminders derive from their job.

Second, the productivity of the intrinsic rewards is expected to be affected by changes in the employee governance of child-care organisations. An increase in the flexibility of employment contracts is expected to be perceived as controlling since it may indicate that the child-care organisation is more interested in personnel efficiency than in the interests of the childminders. Due to the increase in the flexibility of employment contracts, the productivity of the intrinsic rewards is therefore expected to decrease and childminders are expected to be able to produce less comfort, stimulation, affection and behavioural confirmation from themselves with the intrinsic rewards they receive from their job. For similar reasons, an increase in the tightness of the job design is expected to be perceived as controlling and to decrease the productivity of the intrinsic rewards.

An increase in focus on pay-for-performance in the reward and career system is expected to be perceived differently by childminders depending on whether or not they are rewarded for displaying an above average work effort. An increase in focus on pay-for-performance in the reward and career system is expected to be perceived as being positive by the childminders who are actually rewarded for their work effort. For these childminders the reward, in terms of a financial bonus or promotion, is regarded as a recognition for the sacrifices they put into work and the productivity of the intrinsic rewards is expected to increase.

However, an increase in the focus on pay-for-performance in the reward and career system is expected to be perceived as being negative by the childminders who are not rewarded for their work effort, since the sacrifices of these childminders are not acknowledged. For the childminders who are not rewarded, an increase in focus on pay-for-performance is therefore expected to have a negative effect on the productivity of the intrinsic rewards. Taking into account that pay-for-performance is still a rather unusual concept in the care sector (Gielen, Kerkhofs and Van Ours 2006), it seems likely that the group of childminders who will actually be rewarded for displaying an above average work effort will be smaller than the group of childminders who will not be rewarded. Overall, an increase in pay-for-performance is therefore expected to decrease the productivity of intrinsic rewards.

Finally, an increase in the attractiveness of the reward system is expected to be perceived as controlling whereas an increase in the attractiveness of the career system is expected to be perceived as stimulating. An increase in the attractiveness of the reward system on one hand, is expected to be perceived as controlling because an increase in financial rewards may increase the focus on the financial rewards at the expense of the intrinsic rewards that can be received from the job. An increase in the attractiveness of the reward system is therefore expected to decrease the productivity of the intrinsic rewards. An increase in the attractiveness of the career system, on the other hand, is expected to be perceived as stimulating because an increase in attractiveness of the career system might be viewed by the childminders as a sign that the child-care organisations care about their interests (Mühlau and Lindenberg 2003). An increase in the attractiveness of the career system is therefore expected to increase the productivity of intrinsic rewards.

Expected effects on extrinsic and intrinsic motivation

To summarise, the introduction of market forces in the Dutch child-care sector is expected to influence both the extrinsic and intrinsic rewards that childminders receive from their job as well as the productivity of the intrinsic rewards. Both the changes in the extrinsic and intrinsic rewards as well as the extent to which childminders are able to produce well-being with the given level of rewards are

assumed to affect the extrinsic and intrinsic motivation of the childminders. On the basis of the expected changes in extrinsic and intrinsic rewards and the productivity of intrinsic rewards, the changes in employee governance are expected to have contrasting effects on the extrinsic and intrinsic motivation of the childminders (see columns 4 and 5 of Table 3-2).

An increase in the flexibility of employment contracts is expected to decrease the extrinsic rewards and thereby to decrease the extrinsic motivation of the childminders. An increase in the flexibility of employment contracts is also expected to decrease the intrinsic motivation of the childminders, because an increase such as this is expected to decrease both the intrinsic rewards that childminders derive from their job and the productivity of the intrinsic rewards. An increase in the tightness of the job design is expected to be unrelated to the extrinsic rewards and therewith to the extrinsic motivation of the childminders. Since an increase in the tightness of the job design is expected to decrease both the intrinsic rewards that childminders derive from their job and the productivity of these rewards, an increase in the tightness of the job design is expected to negatively influence the intrinsic motivation of the childminders. An increase in focus on pay-for-performance in the reward and career system is expected to increase the extrinsic motivation by increasing the extrinsic rewards, and to decrease the intrinsic motivation of the childminders. Intrinsic motivation is expected to be negatively affected by an increase in pay-for-performance in the reward and career system, since pay-for-performance is expected to decrease both the intrinsic rewards and the productivity of the intrinsic rewards. An increase in the attractiveness of the reward and career system is expected to increase the extrinsic motivation by increasing the extrinsic rewards childminders derive from their job. An increase in the attractiveness of the reward system is expected to have no effect on the intrinsic rewards but is nevertheless expected to have a negative effect on intrinsic motivation because it is expected to decrease the productivity of intrinsic rewards. Finally, an increase in the attractiveness of the career system is expected to increase intrinsic motivation since it is expected to increase both intrinsic rewards and the productivity of intrinsic rewards.

In conclusion, the introduction of market forces in the child-care sector is expected to influence the employee governance of child-care organisations, which,

in turn, is expected to affect employee motivation. Since the changes in employee governance are expected to have both positive and negative effects on the extrinsic and intrinsic motivation of the childminders, the overall effect of these changes is not clear in advance. Most changes in employee governance are, however, expected to have positive effects on the extrinsic motivation and negative effects on the intrinsic motivation of the childminders.

3.5 How employee motivation affects employee performance

Finally, we will focus on the effects of the introduction of market forces in the Dutch child-care sector on the performance of the childminders. If the introduction of market forces in the Dutch child-care sector affects the motivation of the childminders - either directly or through a change in employee governance - how will the changes in employee motivation affect the performance of the childminders? Section 3.5.1 focuses on explaining employee performance and section 3.5.2 discusses how the changes in employee motivation can be expected to affect employee performance.

3.5.1 Explaining employee performance

In section 3.4.2 we explained that the extent to which employees are motivated in their work depends on the well-being that employees are able to produce in their job. The higher the level of well-being childminders are able to produce with the extrinsic and intrinsic rewards they derive from their job, the higher their level of extrinsic and intrinsic motivation is assumed to be. Employee motivation is, in turn, expected to affect employee performance.

The link between the level of well-being the employee is able to produce in the job and the level of employee performance is based on the mutual-investment model, which defines the relationship between employee and employer as a social exchange relationship and claims that the employer will invest in the employee whereas the employee will respond by displaying a high level of performance (Tsui *et al.* 1997). According to the mutual-investment model offering a high level of extrinsic and intrinsic rewards, which leads to a high level of well-being, will be

reciprocated by the employee. Empirical analyses confirm the hypothesis that if an employer has invested in an employee, the employee will react by displaying more cooperative behaviour (Akerlof 1982; Lambooi 2005).

It might be argued that as long as one is not interested in the differences between extrinsic and intrinsic motivation as such, but only in the effect of employee motivation on employee performance there is no problem when intrinsic motivation is substituted by extrinsic motivation. Empirical evidence has shown, however, that work governed by intrinsic motivation is associated with better mental and physical health than work governed by extrinsic motivation. Employees who are characterised by a high level of intrinsic motivation show a higher work and life satisfaction than employees who are characterised by a high level of extrinsic motivation (Frey 1997a). Having a high level of intrinsic motivation is therefore in itself valuable for employees and a decrease in intrinsic motivation might affect employees negatively even if the decrease in intrinsic motivation is offset by an increase in extrinsic motivation.

Moreover, the effects of extrinsic and intrinsic motivation on employee performance have been found to differ from one another. For the employer, having employees who are partly extrinsically motivated is important for guiding them. With regard to the unpleasant aspects of a job especially, using financial rewards works very well. Therefore, in simple repetitive manufacturing jobs extrinsically motivated employees will work the hardest and the use of financial rewards can be recommended. Intrinsic motivation, on the other hand, is important too. First of all, intrinsically motivated employees have been found to have a higher learning capacity than extrinsically motivated employees. Furthermore, laboratory experiments suggest that cognitively difficult tasks are carried out better by intrinsically than extrinsically motivated employees. Finally, less money is spent on disciplining intrinsically motivated employees. In particular in jobs that demand a high level of creativity from the employees and where monitoring costs are high, intrinsic motivation is valuable (Frey 1993).

The effects of extrinsic and intrinsic motivation differ with regard to the quantity and quality of employee performance as well. First of all, the learning capacity and ability to perform cognitive difficult tasks are usually more important for the quality than for the quantity of work performance. Second, the quantity of

work performance usually is easier to monitor than the quality of work performance. In the child-care sector, the employer can, for example, evaluate rather easily how many children the childminders have been looking after on average, while the quality with which they have cared for the children is less easy to determine. Therefore, due to the differences in monitoring possibilities the employer can influence the quantity of the work performance more easily than the quality of the work performance. Consequently, employees have more control over the quality of work performance than over the quantity of work performance. Given that intrinsic motivation is known to be especially valuable in jobs that demand a high level of initiative and creativity from the employees and where monitoring is difficult, intrinsic motivation is therefore extremely important for ensuring high quality performance.

3.5.2 *Employee performance in child care*

In order to assess the quality of child care one usually distinguishes between structural and process quality (Goossens 1995; Vermeer *et al.* 2005). The structural quality of child care is regulated by the law and defines the standards that child-care organisations have to meet with regard to, for example, group size, staff-to-child ratio, the number of square metres per child, the education of the childminders, and safety regulations. The structural quality of child care thus provides the means to deliver high quality and is therefore assumed to have a positive effect on process quality.

Process quality concerns the quality of care within the group itself, which results, among other things, from the interaction between childminders and children and the supply of a varied amount of activities that stimulates the development of the children. Whereas the performance of the childminders is almost totally unrelated to structural quality, process quality is heavily influenced by employee performance. Therefore, in this research we will focus on the performance of the childminders that influences process quality. This performance we will label quality performance.

Market forces, employee governance and employee motivation are expected to affect the quality of the performance of the childminders in the way that is presented in Table 3-3. Both extrinsic and intrinsic motivation are expected

to have a positive effect on quality performance. Increases in the flexibility of employment contracts and tightness of the job design are expected to decrease the quality of work performance because these employee governance aspects are expected to negatively affect employee motivation. The effect of an increase in focus on pay-for-performance in the reward and career system on employee performance is not clear beforehand, since an increase in focus on pay-for-performance is expected to positively affect extrinsic motivation and to negatively affect intrinsic motivation. For similar reasons, the effect of an increase in the attractiveness of the reward system is expected to have mixed effects on the quality of performance. Finally, an increase in attractiveness of the career system is expected to increase the quality of performance, because it is expected to increase both extrinsic and intrinsic motivation.

Table 3-3: Expected effects of market forces, employee governance and employee motivation on employee performance¹

| | Quality of employee performance (low .. high) |
|---|---|
| Market forces (low .. high) | +/- |
| Flexibility contracts (low .. high) | - |
| Tight job design (low .. high) | - |
| Pay-for-performance reward system (low .. high) | +/- |
| Pay-for-performance career system (low .. high) | +/- |
| Attractive reward system (low .. high) | +/- |
| Attractive career system (low .. high) | + |
| Extrinsic motivation (low .. high) | + |
| Intrinsic motivation (low .. high) | + |

¹+: positive effect, -: negative effect.

In conclusion, the introduction of market forces in the Dutch child-care sector is expected to influence employee motivation, which, in turn, is expected to affect employee performance. Since the introduction of market forces is expected to have mixed effects on the extrinsic and intrinsic motivation of the childminders, the

effect of the introduction of market forces in the Dutch child-care sector on the quality performance of the childminders is not clear in advance.

3.6 *Summary*

This chapter presented the theoretical model that explains the effects of the introduction of market forces in the Dutch child-care sector on employee governance, motivation and performance. In section 3.3 we have explained how the introduction of market forces in the Dutch child-care sector influences the employee governance of child-care organisations. On the basis of the assumptions presented, the introduction of market forces in the Dutch child-care sector is expected to have a positive effect on the flexibility of employment contracts, tightness of the job design, focus on pay-for-performance in the reward and career system, and attractiveness of the reward and career system.

In section 3.4 we focused on the effects of the introduction of market forces in the Dutch child-care sector on employee motivation. The literature regarding intrinsic motivation, which is reviewed in section 3.4.1, shows that in order to be able to understand behaviour it is necessary to take both the concepts of extrinsic *and* intrinsic motivation into consideration. By combining the social production function approach and crowding theory, we have explained how external interventions may affect the extrinsic and intrinsic motivation of employees.

On the basis of the theoretical model developed in section 3.4.2, we have formulated hypotheses in section 3.4.3 with regard to the expected effects of the introduction of market forces in the Dutch child-care sector on the extrinsic and intrinsic motivation of the childminders. The introduction of market forces in this sector is expected to affect the employee governance of child-care organisations which, in turn, is expected to influence the extrinsic and intrinsic motivation of the childminders. Since the changes in employee governance are expected to have both positive and negative consequences for the extrinsic and intrinsic motivation of the childminders, the overall effect of the introduction of market forces in the Dutch child-care sector on the extrinsic and intrinsic motivation of the childminders is uncertain. Most changes in employee governance are, however, expected to have

positive effects on the extrinsic motivation and negative effects on the intrinsic motivation of the childminders.

Finally, in section 3.5 we have formulated hypotheses with regard to the expected effects of the introduction of market forces in the Dutch child-care sector on the performance of the childminders. Here, we have focused on the quality of employee performance. Both extrinsic and intrinsic motivation are expected to have a positive effect on quality performance. Since the introduction of market forces in the Dutch child-care sector is expected to have mixed effects on the extrinsic and intrinsic motivation of the childminders, its effect on the quality performance of the childminders is not clear beforehand.

